

THE STOCK EXCHANGE AS A MORAL FORCE

*An address before the
New York Stock Exchange Institute*

BY H. S. MARTIN
First Assistant Secretary

OCTOBER ELEVEN, NINETEEN HUNDRED TWENTY-THREE



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The Exchange has been discussed from many standpoints—its functions; its value as an economic factor; its necessity, in a commercial sense; its outstanding relation to the financial world; its alleged irresponsibility to public control; and its so-called powers for evil—have been considered by all kinds of publications, persons and legislators, advised or unadvised; but we are now to consider it from rather an unusual standpoint—its value as a moral force in the business world.

At the outset, it may be said that it is usually unsafe to accept any statement at its face value. Having had some experience in early life as a teacher, I learned that certain statements are to be accepted as axioms—self-evident truths—such as, that 2 and 2 make 4; and that a square has four equal sides and four equal angles; but there are so few self-evident truths, and so little that is said and printed is to be accepted as full truth that I soon found it desirable to separate most statements into their component parts and to analyze those parts; later, in my business experience, this habit of analysis has been of value in many ways; and following the practice thus set up, I naturally separate the subject of this address into three main parts: First, The Stock Exchange; Second, Moral; and Third, Force. And I hope you will all analyze what I say here today

and discover for yourselves what parts of my address are self-evident truths.

We, who are employed by the Exchange in our varying capacities, get a varying idea of what it really is; when I came with the Exchange nearly twenty-five years ago it was being subjected to about as bitter a criticism as could possibly be made of any institution—"gambling hell" was a favorite term of opprobrium; "marked cards" was another euphonism of those unfavorably disposed—and what with the other discreditable things said of my employer, you may be sure that I had some uneasiness of mind as to the desirability of continuing with an institution of which so many disagreeable, and at that time undenied, remarks were made; but, with my analyzing tendency, I set about to see what, if any, foundation there was for those statements, tintured, I must confess, with misgivings of my own, due in part to my ignorance of the business but most largely due to the almost appalling indifference on the part of the Exchange to the attacks made upon it.

You may be sure that I used every opportunity afforded me of getting at the actual facts in the matter; and that I am standing here today, speaking on the subject under consideration, shows what conclusion I arrived at in that matter.

You, yourselves, as employees of the Exchange, are in a somewhat similar position to my own when coming with the Exchange; while the attacks upon the Exchange are not so continuous nor so severe as they have been in the past, you, nevertheless, are faced with misstatements as to its usefulness, its methods, and its purposes, and owe it to yourselves to discover the truth with regard to these factors.

Morals may be briefly defined as "rules of right conduct." I am quoting from the Century Dictionary, which gives the following quotation, as illustrating the definition:

"Take a moral act. What constitutes it moral? Its tendency is to promote the general welfare or good of mankind."

The Constitution of the Exchange starts out by saying:

"Its objects shall be—to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles of trade and business."

And, in a recent address of the President of the Exchange, he said:

"All that the members of the Exchange have to offer is service, and above all honest service."

Therefore, today, we have before us for consideration whether the Exchange promotes "the general welfare or good of mankind;" maintains "high standards of commercial honor and integrity among its members;" and renders "honest service."

A force may be defined as, "an active principle which can be depended upon to produce results of a given character"—not necessarily fixed results, however, as it is easy to see upon a little reflection. Natural forces, like gravity, inertia, and the like, may and do produce fixed results; chemical forces, such as explosions, certain forms of reaction, and the like, produce the looked-for results, but not necessarily absolutely dependable for fixity; and moral forces, such as law, education, conscience, the church, society, and the like, while calculated and intended to produce fixed results, fall short of such calculation and intention.

The criticisms of the Exchange are due to varied causes, among them being the confusion of the Exchange and its members with outside brokers of a low moral or financial grade, a misunderstanding of the need for and actual purposes of the Exchange, and losses occurring to persons exercising little or no judgment in selecting their investments or their brokers. And much of this criticism has been and still is due, in the speaker's opinion, to its own failure or neglect "to speak for itself." However, this atti-

tude has latterly been to some extent modified, and we trust will be modified to a greater extent in the near future.

The ideal humanity would be one of one hundred per cent. perfection; the intent of all governments, churches, schools, social organizations, and kindred institutions is to produce as nearly one hundred per cent. perfection as possible; but we all know that, despite high ideals and moral and social teachings, and despite laws intended to produce perfection, men are to be found in all walks of life who prove recreant to the influences for good everywhere set up around them. The Exchange is composed of 1,100 men, and it would be a miracle if among 1,100 men there should not be some who would yield to temptation; but it may be set down as an axiom that it is the intent of the Governing Committee that the personnel of the membership of the Exchange and their business methods shall be as nearly one hundred per cent. as is humanly possible.

The Exchange is a speculative and investment market. We will not here consider speculation and investment; other speakers will define these terms, show their differences and the necessity for both, and coincidently, the necessity for the Exchange; but it may be said here that the feeblest mind should be able to easily distinguish between business (which may be either speculation or investment), and gambling, and can see that the buying and selling upon the Exchange is business, business only, and a most necessary and beneficial form of business. And that the twenty billions of dollars of listed stocks, and the twenty billion dollars of listed bonds represent the highest class, the most solid, the most conservative, and the best-conducted railroad and industrial institutions in the known world; and that no other market has ever been devised which so surely and honestly reflects the value of those institutions and affords opportunity to so readily either buy or sell an interest in those institutions.

You young men know, in a general way, that to be listed upon the Exchange a security must pass the scrutiny first of the Committee on Stock List and then of the Governing Committee; but you do not all know the intensity of that scrutiny and that in every case hundreds and in many cases thousands of items of every conceivable form of information must be furnished before the Committees will consider a listing, that the correctness of the statements made must be certified to by the company whose securities are applied for to be listed; and that the companies must agree to furnish varied further information to the Exchange and to stockholders, and to protect stockholders in many ways. Nor do you know that the requirements for listing have grown in extent from printed matter which in 1868 occupied two inches of space, to their present compass of approximately thirty times the former size; and you may not know that the information required by the Exchange is far more extensive than that required by any governmental authority, even of the most rigid nature.

Here, again, we face the matter of one hundred per cent. perfection, an impossible ideal, as we must all admit, but, nevertheless, the ideal of the Exchange. The vast majority of listed corporations are honestly managed; yet the failure to prosper by any listed company is charged to the Exchange, when, as a matter of fact, it should be praised for the wonderful improvement its efforts have forced in corporate management. No public body has brought about so great a change in the attitude toward publicity as has been produced by the unaided efforts of the Exchange. It has, in effect, said: "If you want the advantages of the market we afford, you must do your utmost in setting forth the facts regarding your organization." Or to put it as the Committee of the House of Representatives does:

"It reserves the right to exact the minutest details of the business and affairs of the issuing corporation, to impose its will in the matter of

the procedure by which the corporation shall declare and pay interest and dividends, and in the matter of transfer and registry, and as regards endless other details."

And then follow these significant words:

"All this is very properly done."

This is a recognition by the highest authority of something done for "the general welfare or good of mankind."

As to transfer and registry—in the old days, companies could and did issue additional stocks overnight, so that stockholders never could know what relation their holdings had to the assets or earning power of the corporation; this dishonest condition was not remedied by law—it was remedied by the Exchange, which requires that at least thirty days' previous notice must be given of a proposed additional issue, and for action by the stockholders themselves on the issue; and that all issues must be protected through registration by responsible institutions not related to the corporation.

You may not know that of the more than \$300,000,000,000 of wealth of the United States, approximately 50% is represented by stocks and bonds; and while it is true that only about one-fourth of these are listed upon the Exchange, it cannot be overlooked or denied that the requirements of the Exchange have been the lever which raised the standard of what a security must be to be desirable for speculation or investment. Fifty-five years of continued and increasing insistence by the Exchange for facts, facts, facts, has had its effect upon the public mind with respect to securities whether listed or not.

There are hundreds of thousands of holders of securities who are being protected by these requirements. So generally have the precautions insisted upon by the Exchange been adopted, that it is almost impossible to find a security of value which does not follow these formalities in its issue. Therefore,

again we see that the Exchange has done much for the "general welfare," and thereby performed a moral act.

To show that the Exchange has been years ahead of the Government in safeguarding the market, I will cite only two of many instances: Since 1868, the Exchange has demanded publication of statements by corporations; it was not until 1910 that the Government, through the Bureau of Corporations required such reports. The Exchange since 1878 has been fighting bucketshops, at its own expense, unaided by any legal authority; the Government had so little conception of their innate dishonesty that by the 1898 Income Tax Law, while placing a \$50 annual tax on legitimate brokers, it permitted bucketshops to take out an annual license on payment of \$500; \$50 to be permitted to do business, if honest; \$500 if dishonest.

Most of you know the adage: "Show me a liar, and I will show you a thief;" meaning of course that most liars are essentially dishonest. If that be so, the reverse should also be true—that truthful men can be counted upon to be essentially honest. Well, if there is any one thing firmly established about the Exchange, it is that the word of a member must be lived up to—that a trade, once agreed upon, must be carried to its conclusion without regard to its monetary effect upon the parties to it: and that it cannot be cancelled except by consent of both parties. It is equally almost as well known that a common business practice in commercial lines is for a business man to order goods, and while those goods are in process of manufacture by the maker to change his mind, cancel the order, and possibly cause a loss to the manufacturer, the only remedy the manufacturer has being a money-and-time-consuming litigation. One of the Hughes Commission said to the speaker that during the panic of 1907 enough orders were canceled on his books to have caused his failure, had he not been fortunate enough to make provision to meet the situation. But by the rules of the

Exchange, the seller of a stock or bond on this Exchange knows that he can absolutely depend on receiving his money on the day it should be paid him. Such a rule in ordinary commercial business would revolutionize existing trade conditions.

Therefore, in teaching that a word, once given, must be adhered to, the Exchange has performed a further moral act.

Everyone knows that in buying merchandise he takes the risk of not getting what he has purchased, as to quality, time of delivery, and in other particulars. But the Exchange requires that exactly what has been bought must be delivered at the time it should be delivered, and, if for any reason it is not so delivered, means are at hand to enforce that delivery. And it goes a still further and important step—it requires that the selling member shall guarantee what he sells, and must stand behind the bona-fides of that sale to the value of his membership, and perhaps even beyond that point. This is certainly not a customary business practice; and it is certainly not a legal requirement—the legal axiom is “caveat emptor,” which in ordinary United States means “let the buyer beware.” So that here we have an instance of that “high commercial honor” which the Exchange states to be one of its objects.

Every employee of the Exchange knows that every listed stock or bond is located at a definite place on the Floor of the Exchange; and that every trade in that stock or bond must be made *openly* at the particular place designated for transactions in that stock or bond; that every person interested has the opportunity to be represented by his broker; and that bids and offers must be *publicly* made, so that all at that location shall have opportunity to participate. The report of the House of Representatives Committee already referred to, says: “The business transacted by its members comes to them from almost every corner of the civilized world. Its hallmark as to the genuineness of a certificate passes current everywhere, and is *rightfully supervised with*

jealous care." Therefore we see that persons from all over the world are interested in transactions on the Exchange; that no secret bargains are permitted, no collusive prices possible, that all have an opportunity for representation and participation in the making of a price, and that "jealous care" is exercised by the Exchange in the matter. Certainly it cannot be denied that honesty is promoted by the rules of the Exchange in this particular, and a moral purpose is thereby served.

Just a moment ago, I referred to "money-and-time-consuming litigation." The Exchange has rules which can be appealed to, where disputes arise regarding a transaction. First of all, a customer who feels he has not received just treatment may appeal to the Committee on Business Conduct, which has power to inquire whether a transaction is honest; or he may appeal to the Arbitration Committee, which has power to decide questions relating to money matters arising between a customer and his member broker. Unlike disputes in other businesses, where such matters are either dragged along for months or years in a Court, and the poorer man, fearing delay and further loss allows himself to "be bluffed out of his rights," these Committees can and do, in a very few days, come to a decision as to the facts in the case, and can and do render full and exact justice. When I tell you that a non-member has received a verdict for approximately \$150,000 in a claim against a member, decided by the Arbitration Committee in a hearing lasting about six hours, and that the entire expense involved was \$50, you can get some idea of how quickly and equitably such matters are settled by the authorities of the Exchange. Being an instance of how the Exchange promotes "just and equitable principles of trade and business."

You all know that every law of the United States and of this State is binding upon the members of the Exchange; but you may not know that the Exchange goes farther than the written laws and statutes in enforcing a code of morals and business ethics which

laws and statutes do not contemplate. The Governing Committee can suspend or expel a member for an act which at law might go unpunished; the speaker knows of no law which penalizes "unmoral business procedure;" but such procedure is not condoned by the Governors. Here no legal intricacies can be introduced; counsel cannot bring forward dilatory motions; witnesses cannot refuse or neglect to testify or absent themselves from jurisdiction; no officers can forget or overlook prosecution; the jurors are not selected as at law, because of their ignorance of the case—the case is heard and decision rendered by men skilled in the knowledge of the business and by judges of motives, and that decision is swift, positive and in accordance with justice. No discipline administered by the Governing Committee has ever been reversed by a Court. And a man, so disciplined, is through.

The Exchange also punishes for another cause, unknown to the law—reckless and unbusinesslike conduct; that is to say, even though no fraud or other legal offense has been committed, the very fact that a member has not conducted his business with regard to principles of "safety first, and always," may cause his expulsion as though he had been actually criminal in his methods. It certainly again appears that "the general welfare" has been promoted.

We now come to the third principal word in our subject—Force. A force may be continuous or intermittent, according to its nature; moral force, however, implies continuous pressure. The Exchange, acting as a moral force, therefore should apply a continuous, constant pressure toward attaining its objects. Let us see if this is done, and how.

The work of the Exchange is done by Committees; you all know that many of the Governors of the Exchange are personally present on the Floor on each business day, interested in observing the conduct of business; and that no form of evil, once observed, escapes attention at the hands of a Committee. Is there an attempt to make a false price? An attempt

to raid a stock, forcing it down below its current value? Or, by unusual buying to place it at a fictitious value? Immediately the matter is inquired into and the facts ascertained.

For instance, during 1922, there were nearly 800 meetings of Committees, concerned with the affairs of the Exchange and with operations on its Floor. Omitting Saturdays and Sundays, there are 261 days in the year; and omitting the 11 regular holidays, we have left 250 full business days on the Exchange; the Committee meetings therefore average three to each full business day.

What do they consider?

The Committee on Admissions passes upon candidates for membership; their qualifications, such as character, honesty, integrity, fitness for the business. Strange as it may seem, true to its attitude as a moral force, the Exchange considers the wealth of the candidate as inferior in importance to his character.

The Committee of Arrangements passes upon the fitness of employees for their positions, and here again character is the chief qualification; this Committee passes upon the integrity of bids and offers, and other matters having to do with honest service by member and employee.

The Committee on Business Conduct observes the course of prices; sees that no dishonest bargains are made; that the broker shall be honest in his dealings with his customer. Every detail of business, every inquiry of a customer no matter how trivial, is inquired into; every advertisement of a member is supervised; the Committee is empowered to visit the office of any member and examine into his dealings—all for the purpose of assuring honesty in transactions upon the Floor of the Exchange.

The Committee on Quotations and Commissions passes upon the character and business integrity of partners, and of employees in offices of members, realizing that it is quite as important to have honesty in those offices as to have it upon the Floor of the Exchange; it also passes upon the names of

non-members who seek ticker or wire service, supervising these with great care, realizing that such facilities must not be extended to dishonest non-member brokers; it conducts campaigns against bucketshops, and has done much to purify the atmosphere in brokerage circles, driving from business those who prey upon speculators and investors under the guise of being brokers, when in fact they should be designated by other and less honorable terms.

The Committee on Stock List passes upon applications to list securities, doing the detailed work already referred to; it also insists upon proper safeguards in the issue of securities to prevent forged issues and other dangers. When you reflect that the usual 100-share certificate for stock represents \$10,000 in face value, you will well realize the desirability, nay, the absolute necessity for supervision in such matters.

The Committee on Securities passes upon whether a certificate is properly issued, and is in proper shape for delivery. When on this Exchange a customer buys a share of stock or a bond, he gets with it, free of cost, an insurance and indemnity such as no other business furnishes—the guaranty of a member of the Exchange, which protects him from any possibility of a flaw in title. The Exchange goes farther than the laws of New York in this protection—the law permits the buyer for value to retain legal possession of a stolen stock or bond; whereas the rule of the Exchange compels the return of that stock or bond to the man who dealt with the thief.

Then there are other committees, whose functions it is not necessary to refer to in this address, but whose labors are for the benefit of the great public who are holders of securities, and desire an honest market, honestly administered.

Over and above these is the Governing Committee; it may suspend a member for any act which it may deem detrimental to the interest or welfare of the Exchange—and every act which has the slightest tinge of dishonesty or unfair business methods has always been considered detrimental to the Ex-

change; in the resolutions adopted by the Governing Committee are enumerated offenses punishable by suspension or expulsion which both common and statute law would or might overlook or excuse.

Oh, yes, mistakes are made and have been made by the Exchange; issues have been listed upon erroneous, if not false, information by the issuing companies, but these have been not one in a hundred; and if one knew of the numbers of issues that have been refused listing, the fraction of mistakes would be so small as to be negligible; improper persons have been admitted to membership, to partnership, and to ticker and wire connections—here again, these have been so infrequent as to be similarly negligible by comparison; but these are regretted and not condoned; and are excluded when discovered.

No—it is impossible for church or state or Exchange to produce in every case one hundred per cent. men—and it is futile to expect them; the most that can be expected is that one hundred per cent. perfection shall be the ideal, and that every possible safeguard shall be employed toward arriving at that ideal; and considering the experience of the Exchange in selecting its members, their partners, their employees, the non-member brokers who are permitted to deal with members, the stocks and bonds dealt in and the manner in which the dealings occur, the prices made and the method of their making, and the various minutiae of the business, it seems safe to say that the Exchange intends to arrive at and has succeeded in arriving at more nearly 100% men and dealings than any other business—private, corporate or governmental—known to the speaker, and that it can safely be placed foremost among the moral forces in the business world.

You, as employees of the Exchange, have a part to perform in arriving at this ideal; should you see dishonesty, shun it, and report it; have no part in it, and make it your business to see that it is prevented; thus you will aid in arriving at the ideal of your employer, the Exchange.



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